



# Annual Report on the Status of Local Telephone Competition in South Carolina

Information compiled by the Office of Regulatory Staff

August 2006

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## Introduction

Section 58-9-280 of the South Carolina Code of laws as amended by Act 318 of 2006 directs the Office of Regulatory Staff (ORS) to compile information in order to monitor the status of local telephone competition in the State. The purpose of this report is to describe the status of competition in the local telephone exchange market in South Carolina, to report on any major changes that have occurred in the marketplace, and to report the effect of broadband and wireless services on the competitive local exchange market. Statistics are included pertaining to both competitive and incumbent market shares in South Carolina. This is the first of these reports compiled by ORS.

## Local Exchange Market

In order to obtain an accurate picture of the competitive marketplace for voice communications in South Carolina, ORS addressed trends in traditional wireline phone service, wireless service, and Voice over Internet Protocol (VoIP)<sup>1</sup> service. ORS compiled information from a variety of data sources including, but not limited to, company-filed Annual Reports, data obtained from company filings for the Telecommunications Relay Service (TRS), and information from the FCC Wireline Competition Bureau. ORS attempted to ensure that comparative data were taken from similar data periods; however, in some cases this was impractical. What is most important is that the reader gain an understanding of the underlying trends in this rapidly changing marketplace. The results of some portions of this report are listed in the aggregate in order to maintain confidentiality of individual company information.

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<sup>1</sup> VoIP: Voice over Internet Protocol is the routing of voice conversations over the Internet or any other IP based network. *See VoIP Providers* section, *infra*.

## Historical Background

Historically, South Carolina's telecommunications needs were served by more than two dozen Incumbent Local Exchange Carriers (ILECs). These ILECs consisted of local telecommunications providers serving specific geographic areas of the state. With the passage of the federal Telecommunications Act of 1996 (the Act or Telecommunications Act), wireline competition was introduced into many areas of the state.

The Federal Communications Commission established rules which allowed new competitors to enter the local telecommunications market. These new entrants became known as Competitive Local Exchange Carriers (CLECs); CLECs provide service either by installing their own infrastructure or by purchasing telecommunications capacity and services from the state's ILECs.

### **Incumbent Local Exchange Carriers**

In South Carolina, four companies – Windstream South Carolina, BellSouth, United Telephone Company of the Carolinas (Embarq), and Verizon – serve the largest geographical areas of the state and provide 64% of the state's total reported access lines. Currently, the largest ILEC operating in South Carolina has 50% of the total reported access lines within the state. While these four companies as a group have the largest reported number of access lines, they reported an aggregate 5% loss of their total lines (about 74,000 lines) during calendar year 2005.

There are also twenty-one smaller Incumbent Local Exchange Carriers operating in South Carolina. These 21 carriers serve predominantly rural areas of the State and

currently provide 22% of the total reported local access lines in South Carolina. Based on data filed with ORS, this group as a whole also reported an overall loss of access lines in the last year. In light of the overall population growth in South Carolina,<sup>2</sup> this line loss suggests that the number of consumers choosing alternative carriers is outpacing the number of new residents who moving into the state and opt for traditional landline phone service.

### **Competitive Local Exchange Carriers**

Since 1996, the Public Service Commission of South Carolina has issued Certificates of Public Convenience and Necessity (CPC&Ns) to numerous CLECs. These carriers compete in a variety of markets in South Carolina and provide a wide range of services to consumers. There are currently 206 certificated CLECs in South Carolina. Of these CLECs, 74 report providing local access lines in South Carolina.<sup>3</sup> The chart below categorizes the CLECs according to the number of local access lines that were reported to the Telecommunications Relay Fund as of December 2005.

### **2005 CLEC Access Line Distribution in South Carolina**

CLECs With No Lines	132	64%
CLECs with 1-1,000 Lines	38	18%
CLECs with 1,001-10,000 Lines	28	14%
CLECs with 10,001- 20,000 Lines	4	2%
CLECs with more than 20,000 Lines	4	2%
Total Number of CLECs in South Carolina	206	

<sup>2</sup> See U.S. Census Bureau's 2005 Growth Estimates indicating that South Carolina is the nation's twelfth-fastest growing state; retrieved from <http://www.census.gov/Press-Release/www/releases/archives/statepop05table.xls> July 17, 2006.

<sup>3</sup> The CLECs who do not report having any local access lines in South Carolina fall into different categories. For example, some CLECs provide only point-to-point data or broadband lines (DLECs), and others may not have any customers in South Carolina at the present time.

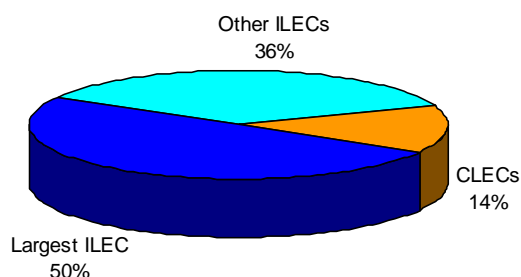
The CLEC industry ranges from large national companies such as Verizon Business (formerly MCI), AT&T and Time Warner Cable, who offer a wide variety of services, to smaller companies that limit their offerings to pre-paid local phone service.

Some South Carolina incumbent local exchange carriers also have CLEC operations offering competitive service in areas traditionally served by other ILECs; currently at least a dozen CLECs are either owned, operated by, or in some way affiliated with an ILEC<sup>4</sup>.

Competitive Local Exchange Carriers have had some success gaining market share in South Carolina. In 2005, 2.1 million local service access lines served the state's population of slightly more than 4 million people; roughly 14% of these lines (297,000) were held by CLECs.

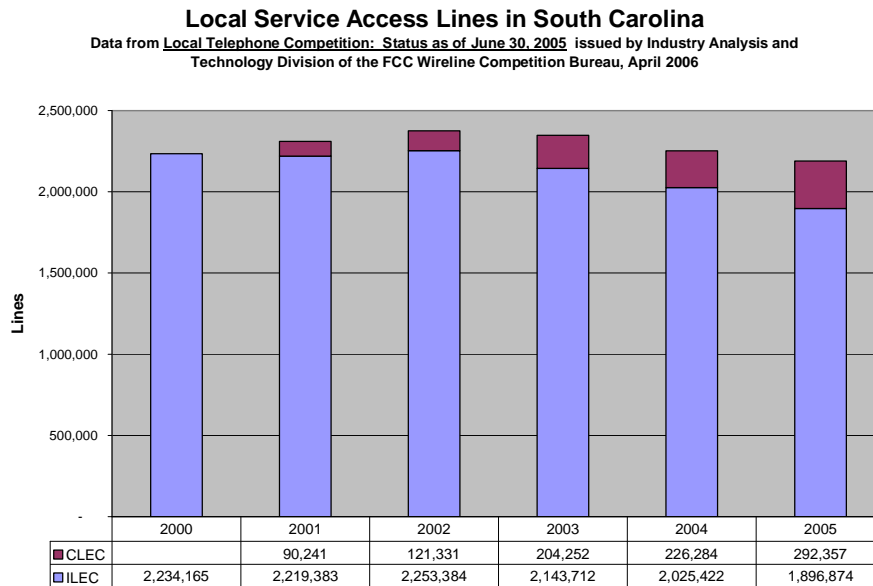
#### South Carolina Market Share 2005

Data from SC Dual Party Relay Fund Statistics as of December 30, 2005



The largest CLEC operating within the state reported 46,783 local access lines for the month ending December 31, 2005. This accounted for 16% of the total CLEC lines

reported. During calendar year 2005 this same carrier increased its local access lines by 46%. While CLECs in South Carolina are gaining access lines, the industry trend reveals an overall decrease in the number of access lines. The chart below indicates the overall reduction in access lines along with the increased percentage of access lines operated by CLECs.



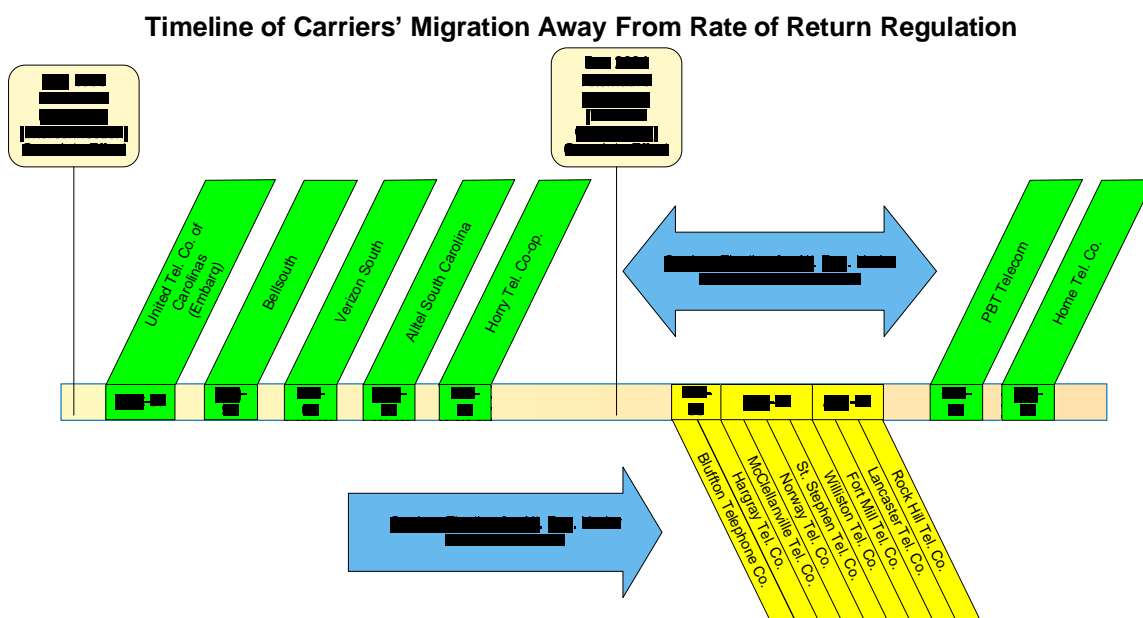
This trend indicates that consumers are beginning to migrate from traditional wireline services to alternatives such as wireless and VoIP services.

### **Local Telephone Service Pricing**

Historically, prices set by telephone utilities were regulated by the Public Service Commission based on the company's investment in rate base and rate of return. Pricing structures were set to allow the telephone company the opportunity to earn, not necessarily to ensure, an approved rate of return. With the onset of competition, the

<sup>4</sup> See table below entitled "*ILEC Alternative Regulation Elections, Rural Exemptions, and CLEC Affiliations*" for a list of ILEC/CLEC affiliations.

South Carolina General Assembly enacted legislation that offered phone companies the option to utilize alternative or flexible price regulation. In these cases, rates and rate structures are reviewed for compliance with the price regulation plan established in South Carolina statutes, but prices are not restricted based on revenue earnings. In order to come under these more flexible standards, a company must show either that (1) it has an approved local interconnection agreement with an entity not affiliated with the LEC, (2) another provider's service competes with the LEC's basic local exchange telephone service, or (3) at least two wireless providers not affiliated with the LEC have coverage generally available in the LEC's service area.<sup>5</sup>



Of South Carolina's 25 ILECs, 16 have filed for and received Alternative or Flexible Regulation. Seven companies cited interconnection requests or agreements, while nine others pointed to wireless availability as their reason for moving away from rate of return regulation.

<sup>5</sup> S.C. Code Ann. § 58-9-576(A).



**ILEC Alternative Regulation Elections, Rural Exemptions, and CLEC Affiliations**

<b>Carrier</b>	<b>Alt. Reg. – Interconnection Effective Date</b>	<b>Alt. Reg. – Wireless Effective Date</b>	<b>Rate of Return Regulation</b>	<b>CLEC Affiliate</b>
United Telephone Company of Carolinas (Embarq- formerly Sprint)	29-Sep-97			Embarq Communications, Inc
BellSouth Telecommunications	13-Aug-99			BellSouth Long Distance
Verizon South, Inc	14-Oct-00			Verizon South
Windstream South Carolina	27-Sep-02			Windstream Communications
Horry Telephone Cooperative	30-Jan-03			HTC Communications, Inc.
PBT Telecom	18-Feb-06			PBT Communications
Home Telephone Company	7-Apr-06			Home Telecom, LLC
Bluffton Telephone Co.		4-Mar-05		Hargray, Inc.
Hargray Telephone Co.		4-Mar-05		Hargray, Inc.
McClellanville Telephone Co. (TDS)		30-May-05		
Norway Telephone Co. (TDS)		30-May-05		
St. Stephen Telephone Co. (TDS)		30-May-05		
Williston Telephone Co. (TDS)		30-May-05		
Fort Mill Telephone Company dba Comporium		1-Aug-05		PBT Communications dba Comporium
Lancaster Telephone Company dba Comporium		1-Aug-05		PBT Communications dba Comporium
Rock Hill Telephone Co. dba Comporium		1-Aug-05		PBT Communications dba Comporium
Chesnee Telephone Co.			X	
Chester Telephone Co.			X	Fairfield Communications
Farmers Telephone Coop.			X	FTC Diversified
Lockhart Telephone Company			X	Fairfield Communications
Palmetto Rural Telephone Coop.			X	Palmetto Telephone Communications
Piedmont Rural Telephone Coop.			X	PRT Communications, LLC
Ridgeway Telephone Co.			X	Fairfield

Carrier	Alt. Reg. – Interconnection Effective Date	Alt. Reg. – Wireless Effective Date	Rate of Return Regulation	CLEC Affiliate
				Communications
Sandhill Telephone Coop.			X	
West Carolina Rural Tel. Coop.			X	West Carolina Communications

## Alternative Services

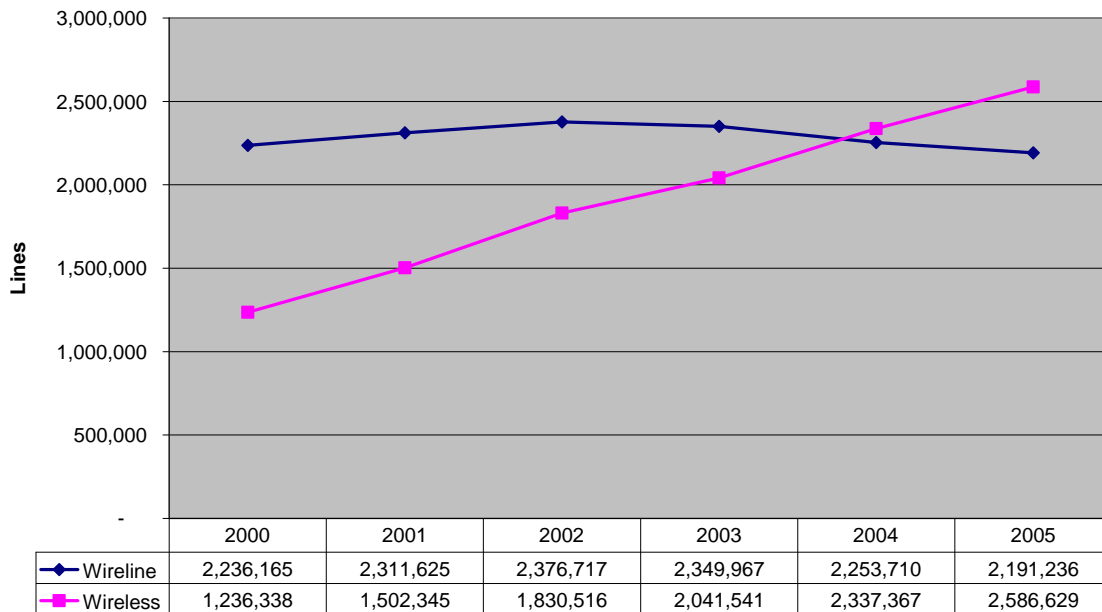
### *Wireless Carriers*

Like the nation in general, South Carolina has seen an enormous increase in its number of wireless users. Wireless providers have become savvy marketers, thus offering customers upgraded mobile phones and service plans with free long distance. The chart below documents this trend and indicates that while consumers initially saw mobile phones as a supplement to their landline service, they are becoming increasingly likely to opt for only a wireless phone. Consequently, this tendency on the part of consumers is causing a decline in the total number of landline access lines.<sup>6</sup>

<sup>6</sup> Yuan, L. (March 31, 2006). More U.S. Households Are Ditching Landline Phones for Wireless, *The Wall Street Journal Online*, Retrieved from [http://online.wsj.com/public/article/SB114377382543813195-56i\\_ChIxpQGzRv8PcpbFYZ\\_WlJw\\_20070331.html?mod=rss\\_free](http://online.wsj.com/public/article/SB114377382543813195-56i_ChIxpQGzRv8PcpbFYZ_WlJw_20070331.html?mod=rss_free) June 7, 2006.

## Wireline and Wireless Telephone Lines in South Carolina

Data from Local Telephone Competition: Status as of June 30, 2005 issued by Industry  
Analysis and Technology Division of the FCC Wireline Competition Bureau, April 2006



### VoIP Providers

Voice over Internet Protocol (VoIP) is a standards-based technology which allows traditional telephone voice conversations to be digitized and transported over the same data infrastructure that carries Internet traffic or a private carrier-owned network. Calls can be transported over the network and routed either to another VoIP subscriber or onto the PSTN<sup>7</sup> for termination to a traditional telephone subscriber.

In a relatively short period of time, VoIP providers have entered the local telephone service market and begun to garner subscribers from both ILECs and other CLECs. VoIP service often includes ‘unlimited long-distance’ meaning that subscribers are not charged tolls for domestic long-distance calls, including inter-LATA calls.

<sup>7</sup> PSTN: Public Switched Telephone Network; the telephone network formed by the interconnection of national and international telephone companies over which most of the world’s voice traffic travels.

Popular add-on features such as Caller ID, voice mail, and three-way calling are often included in the basic monthly subscription, thus making many VoIP offerings price-competitive with local phone service from other carriers.

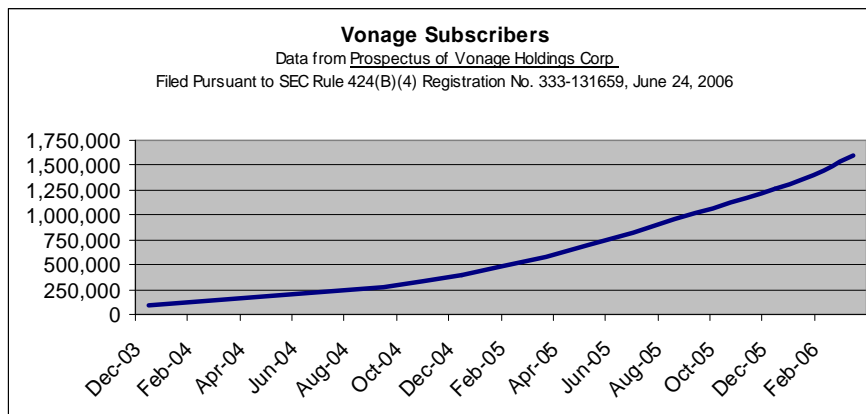
Some providers who already offer facilities-based high speed Internet access (a.k.a. broadband) are currently deploying VoIP local phone service over their existing infrastructure. In South Carolina, cable operators are rolling out VoIP as a bundled offering in select areas of the state. These selected areas coincide with cable company's cable television operations. Other VoIP providers, such as Vonage and AT&T's CallVantage, require subscribers to provide their own broadband (high-speed) Internet connection.

Because the regulatory status of VoIP is currently in flux (see *Vonage Order, infra*) customer statistics are difficult to compile. A recent *Cable World* article quoted Time Warner as having 21,700 VoIP subscribers in South Carolina as of December 2005.<sup>8</sup> Vonage recently disclosed its national subscriber figures in preparation for its IPO, and the chart below shows the company's subscriber growth<sup>9</sup>. While it is unclear how many of these customers reside within the state, the overall growth trend appears to shadow that of broadband subscriber growth.

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<sup>8</sup> Applebaum, S. (December 5, 2005). Meet the System: Starting Over in South Carolina, *Cable World*, Retrieved from [http://www.broadband-pbimedia.com/cgi/cw/show\\_mag.cgi?pub=cw&mon=120505&file=meetthesystem.htm](http://www.broadband-pbimedia.com/cgi/cw/show_mag.cgi?pub=cw&mon=120505&file=meetthesystem.htm) June 1, 2006.

<sup>9</sup> <http://www.sec.gov/Archives/edgar/data/1272830/000104746906006601/a2169686zs-1a.htm>

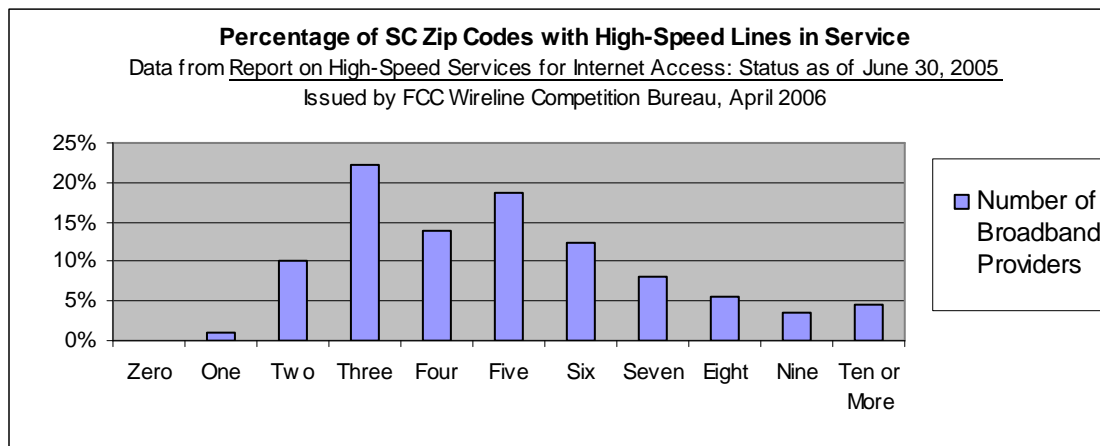


### ***Broadband Services***

Although it has other meanings, the word ‘broadband’ in recent years has also become a shorthand term for high-speed Internet access. Namely, this term means end-user access to the Internet at speeds greater than 200 kbps in at least one direction.<sup>10</sup> Many broadband services actually provide Internet access at even greater speeds. Typically these services are offered by cable operators (via cable modem) or ILECs (via some flavor of Digital Subscriber Line) but can also be provided by satellite, cellular/wireless, or other competing carriers and technologies. Because broadband is a prerequisite for some types of VoIP service like Vonage and CallVantage, its availability plays a role in bringing yet another alternative to South Carolina’s local phone service market.

Broadband is not a state-regulated service, thus making it difficult to obtain state-specific information on its availability and subscription levels. For purposes of this report, ORS relied primarily on information obtained from Federal Communications Commission publications.

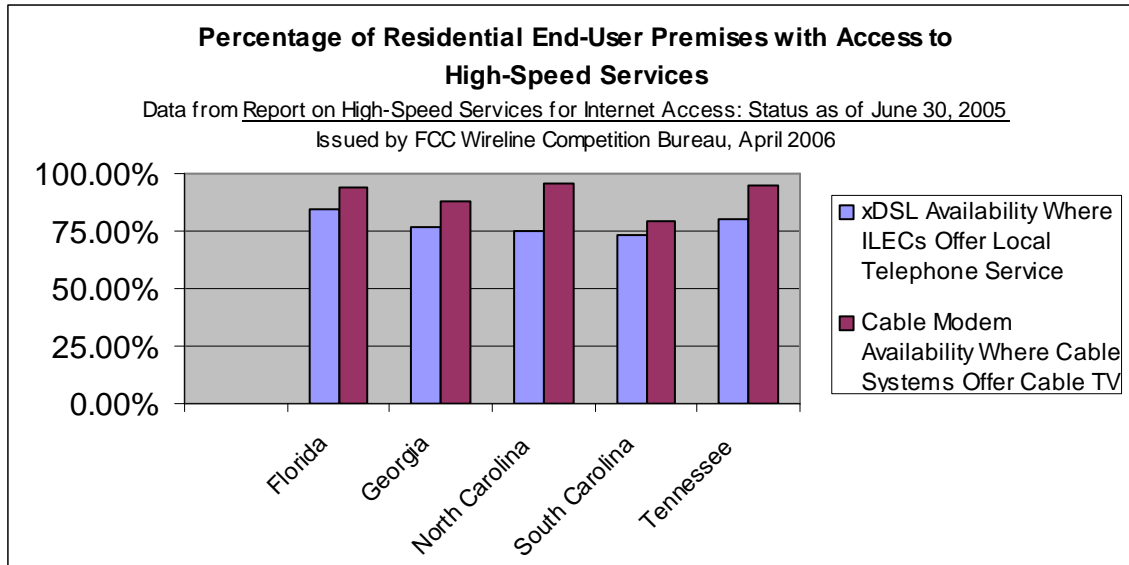
<sup>10</sup> Report on High-Speed Services for Internet Access: Status as of June 30, 2005; Industry Analysis and Technology Division, Wireline Competition Bureau (Federal Communications Commission April, 2006).



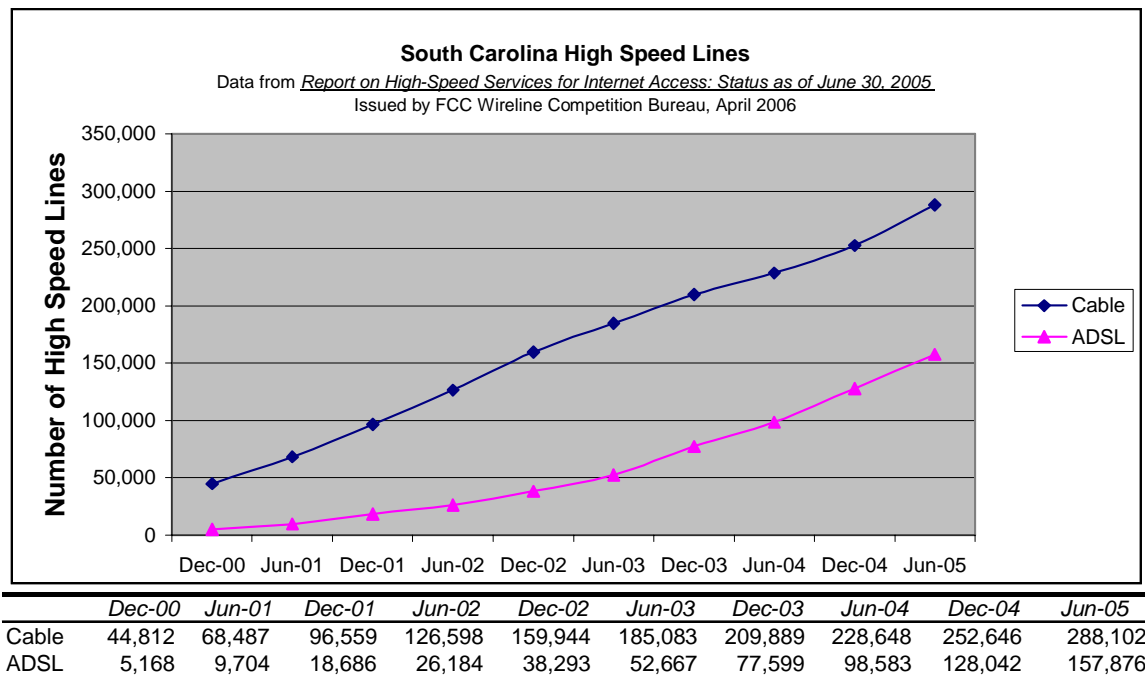
According to the FCC, every zip code in S.C. contains at least one home or business that subscribes to broadband Internet access, and at least 99%<sup>11</sup> of S.C. zip codes are served by two or more broadband providers. However, that statistic may overstate and oversimplify the rollout of advanced telecommunications services within the state. Given that only telephone service (as opposed to cable service) is universally available – and some form of DSL is available in 73%<sup>12</sup> of the places where phone companies currently provide service – it is clear that broadband access is not currently available to all South Carolinians.

<sup>11</sup> *Id.* at Table 17.

<sup>12</sup> *Id.* at Table 14.



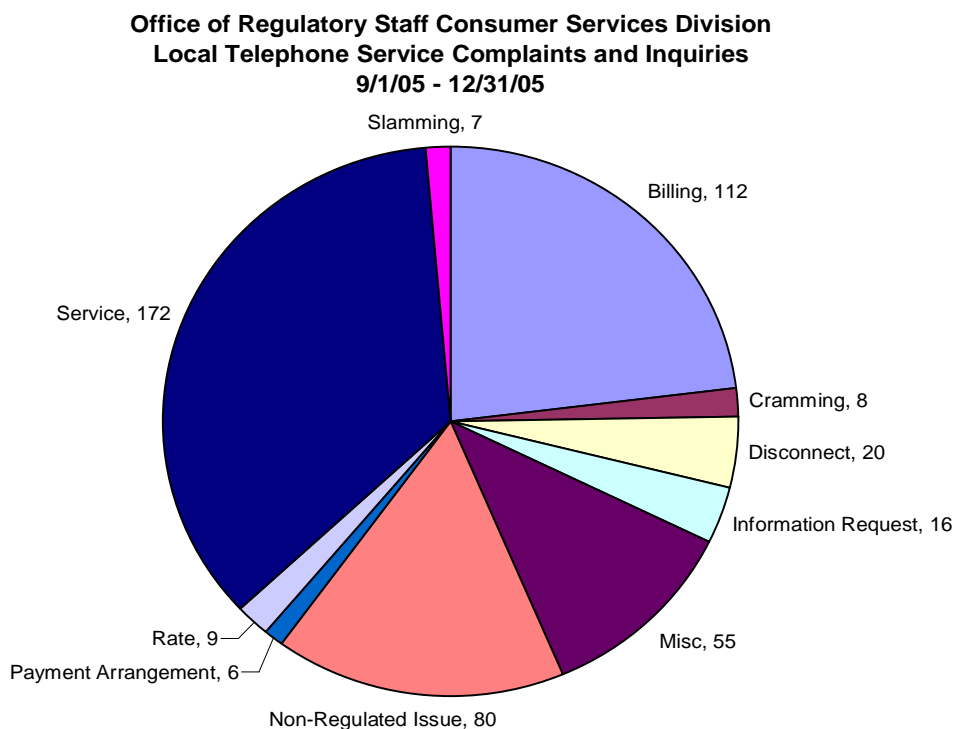
Compared with other states in the southeast, however, S.C. is for the most part on a par with its neighbors for DSL and cable modem availability where phone and cable TV services are otherwise offered. As it has in other regions, broadband service has first become available in SC's high-density/high-income areas.



Overall, as reported to the FCC, the number of broadband subscribers has grown quickly – from just over 25,000 in December of 1999 to nearly half a million and climbing in June of 2005.

### Impact on Consumer Services

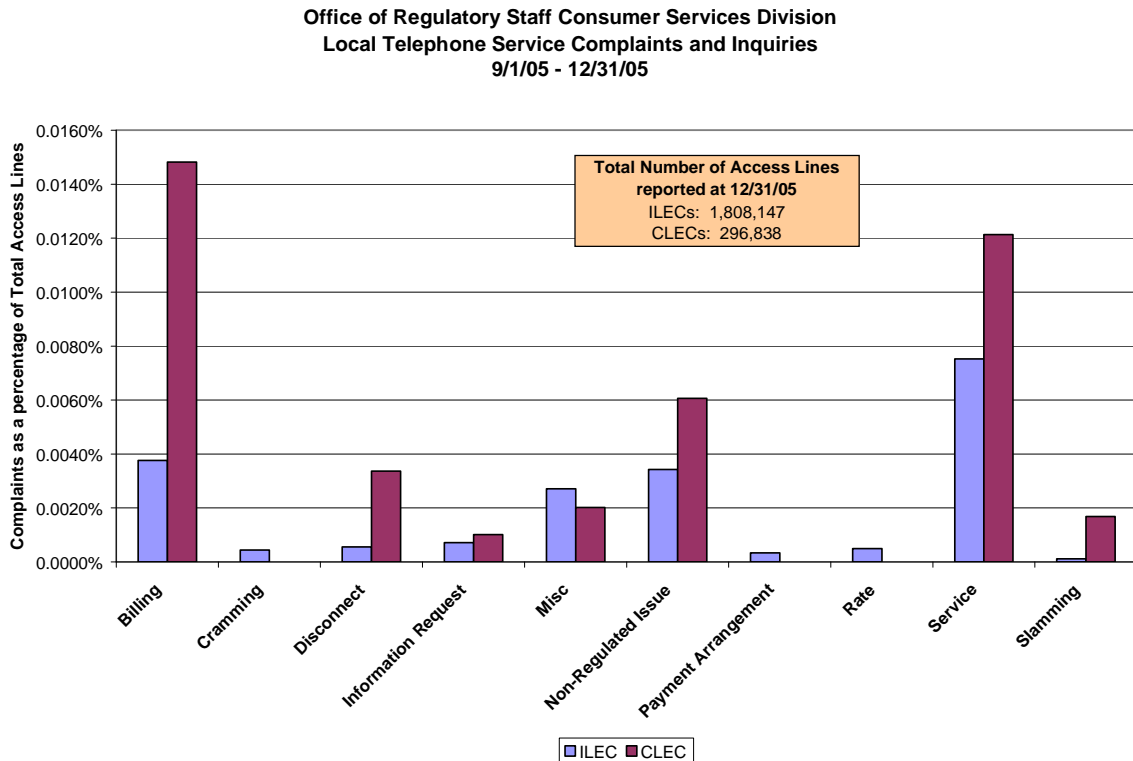
ORS tracks the consumer complaints it receives concerning service, billing, and other issues for both regulated and non-regulated local telephone services.



The chart above depicts a categorical breakdown of complaint calls received by ORS during the fourth quarter of 2005. Aside from service issues, the remaining categories and volume of complaints suggest that while the overall number of choices consumers



have for local phone service has increased, this has also created confusion regarding billing, bundling of services, and which services ORS and the PSC regulate.



On a volume basis, complaints from ILEC customers outnumber those from CLEC subscribers; however, CLECs generate a higher ratio of complaints per the number of access lines reported.

### ***Other Consumer Issues***

For the year ending December 31, 2005, the ORS Consumer Services Division received 77 consumer complaints categorized as Non-regulated Internet and/or Broadband. The nature of these complaints varied, but generally they involved the availability of broadband services from the consumer's local telephone company or an issue relating to accessing a VoIP service via a broadband Internet service Provider (ISP).

These complaints included problems with number portability or difficulty making and receiving calls from subscribers served by certain ILECs within the state. The FCC's *Vonage Order* currently makes it unclear exactly what, if any, authority the Public Service Commission of South Carolina and the Office of Regulatory Staff have to resolve these types of issues.

ORS will continuously monitor the development, advancement, and impact of new and emerging technologies in the broadband area including VoIP, Wi-Fi<sup>13</sup> and Broadband over Power Lines.<sup>14</sup> Some of the issues surrounding these emerging technologies include wireless and VoIP providers' obligations to the South Carolina Universal Service Fund (USF) and TRS Fund,<sup>15</sup> the monitoring of service reliability, avenues for consumer complaints, and inter-carrier compensation arrangements. ORS supports the deployment of new and emerging technologies so long as they do not adversely affect the state's ability to address the concerns of the using and consuming public, the financial integrity of public utilities, or the economic development of South Carolina.

### **Regulatory and Legislative Impact on Competition**

Regulatory decisions and legislative initiatives, along with new technologies, have worked to change the face of the telecommunications industry. The issues and decisions in this section highlight some recent rulings and changes in legislation which may have, or are having, an impact on the marketplace.

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<sup>13</sup> Wi-Fi: Enables a person with a wireless-enabled computer to connect to the Internet when in proximity of an access point. The geographical region covered by one or several access points is called a hotspot.

<sup>14</sup> Broadband Over Power Lines: A wire line technology that uses the current electricity network to provide broadband internet access.

<sup>15</sup> Section 225 of the Communications Act, 47 U.S.C. Section 225, requires that the FCC ensure that interstate and intrastate telecommunications relay services (TRS) are available, to the extent possible and in the most efficient manner, to persons with hearing and speech disabilities in the United States.

## Federal Level

### ► The *Vonage Order*

In November of 2004, the FCC ruled that state regulators were preempted from regulating Voice over IP (VoIP) providers similar to Vonage Holdings Corp.<sup>16</sup> The Commission's decision was based on two rationales: 1) Congress's stated preference not to regulate innovative Internet-based services, and 2) the difficulty of discerning intrastate calls from calls which cross state lines in order to separate the appropriate portion of the service subject to state regulation.

Under the *Vonage Order*, the FCC ruled that Internet-based phone providers such as Vonage were actually providing Internet communication services more akin to email or instant messaging than to traditional phone service. Congress's stated policy concerning these types of service has been 'hands off', preferring to "promote... continued development and preserve the vibrant and competitive free market for these types of services."<sup>17</sup>

Vonage-type subscribers also must provide their own broadband Internet service; therefore Vonage-type calls may originate from any physical location where the subscriber can access the Internet, similar to email messages, making it virtually impossible to determine the physical address from which they are placed. According to the FCC, this erodes the old dichotomy of 'local' and 'long distance' segments, thus giving the Federal government exclusive jurisdiction over what the Commission deemed an inherently interstate service.<sup>18</sup>

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<sup>16</sup> *In the Matter of Vonage Holdings Corporation Petition for Declaratory Ruling Concerning and Order of the Minnesota Public Utilities Commission*, Memorandum Opinion and Order, WC Docket 03-211 (rel. Nov 12, 2004) (the "*Vonage Order*").

<sup>17</sup> *Vonage Order* at 23.

<sup>18</sup> *Id.* at 18-19.

Since this order was issued, the FCC has gone on to make rules regarding Interconnected VoIP providers' duties to comply with Enhanced 911, CALEA (wiretapping capability for law enforcement agencies), and Federal Universal Service Fund requirements. However, it has not classified VoIP as an information or telecommunications service and is currently determining what remaining rights and duties VoIP providers will have under the Telecommunications Act.<sup>19</sup>

### ► Pricing for Unbundled Network Elements (UNEs)

Per a recent FCC order, incumbent carriers no longer have to offer 'UNE-P' as an unbundled service to CLECs at TELRIC cost-based pricing.<sup>20</sup> UNE-P or Unbundled Network Elements- Platform essentially allowed competitive carriers to lease nearly a complete solution (loop, port and transport elements with switching) from incumbent LECs at state regulated prices in certain circumstances. UNE-P allowed competitors to enter the market without making large investments in equipment and facilities.

This change in the FCC's rule removed switching from the list of network elements that ILECs must resell to competitors at fixed prices. In most cases other individual elements including local loop and local transport UNEs will continue at state-established prices.<sup>21</sup> ILECs also may still offer UNE-P, but will be free to do so on terms they negotiate with CLECs in private commercial agreements. Competitors who cannot provide their own switching capability will be required to meet the prices set by the ILEC. The increased pricing resulting from this deregulation has been cited by some CLECs as their reason for withdrawing from the marketplace.

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<sup>19</sup> See *Vonage Order* at note 46.

<sup>20</sup> *In the Matter of Unbundled Access to Network Elements*, WC Docket No. 04-313, Order on Remand, FCC 04-290 (Feb. 4, 2005).

## State Level

### ► Broadband legislation

In March of 2003, the South Carolina General Assembly removed the Commission's regulatory authority over 'broadband services'<sup>22</sup> (defined as video services or high-speed Internet access). Specifically the law says, "The commission must not: (1) impose any requirements related to the terms, conditions, rates, or availability of broadband service, or (2) otherwise regulate broadband service."

### ► Bundled Services legislation

In July of 2004, the state legislature also enacted legislation which prohibited the Public Service Commission from regulating 'bundled offerings.'<sup>23</sup> Bundled offerings are defined as two or more services that a carrier normally offers separately at a tariffed (regulated) rate but are packaged or 'bundled' together on different terms (usually a reduced price). The law also prevents the PSC from regulating contract offerings by carriers to consumers at prices different from set tariffed rates. For example, a carrier might offer a percentage discount if a customer agrees to a multi-year commitment or subscribes to two concurrent services; such offerings may not be regulated by the Commission. However, consumers still have the ability to bring formal complaints regarding bundled services and contract offerings before the Commission.

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<sup>21</sup> In certain instances, ILECs are no longer required to resell loops and transport elements pursuant to criteria established by the FCC; *See In the Matter of Unbundled Access to Network Elements*, WC Docket No. 04-313, Order on Remand, FCC 04-290 (Feb. 4, 2005).

<sup>22</sup> S.C. Code Ann. § 58-9-280(G)(1).

<sup>23</sup> S.C. Code Ann. § 58-9-285.

### ► Revised Standards for Eligible Telecommunications Carrier (ETC) Status

In January of 2006, ORS petitioned the Public Service Commission to adopt a single set of eligibility standards that would apply to all wireline applicants seeking ETC designation in non-rural areas in light of multiple carriers' requests for ETC status in hopes of receiving Federal Universal Service Fund (USF) support. Eligible Telecommunications Carrier (ETC) status is a designation made by state PSCs which allows 'eligible' carriers to receive a share of Federal USF dollars to support universally available and affordable basic telephone service in high-cost areas – i.e., areas where the expense of constructing plant might otherwise not be profitable.

ORS based this request partially on recent FCC Orders<sup>24</sup> encouraging state commissions to adopt its new and more stringent standards for determining eligibility status for carriers. ORS is concerned that “without a standard set of guidelines for ETC designation, determinations will be made on a case-by-case basis and may not be competitively neutral.”<sup>25</sup>

Although Federal USF funds have been used to support competitive alternatives in other areas of the country, the SCPSC has yet to bestow ETC status on a competitive services carrier – either wireline or wireless.

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<sup>24</sup> *In the Matter of Federal State Joint Board on Universal Service, Virginia Cellular, LLC Petition for Designation as an Eligible Telecommunications Carrier in the Commonwealth of Virginia*, Memorandum Opinion and Order, FCC 03-338, CC Docket No. 96-45 (rel. January 22, 2004); *In the Matter of Federal State Joint Board on Universal Service, Highland Cellular, Inc. Petition for Designation as an Eligible Telecommunications Carrier in the Commonwealth of Virginia*, Memorandum Opinion and Order, FCC 04-37, CC Docket No. 96-45 (rel. April 12, 2004).

<sup>25</sup> *In re: Petition of the Office of Regulatory Staff for a Rule-Making Proceeding to Examine the Requirements and Standards to Be Used by the Commission When Evaluating Applications for Eligible Telecommunications Carrier (ETC) Status and When Making Annual Certification of ETC Compliance to the Federal Communications Commission*, Docket No. 2006-37-C, filed January 9, 2006.

## Conclusions

Based on the emergence of new technologies as viable competitors to traditional phone service over the public switched network, the status of competition in all areas of the state is difficult to quantify; however some broad conclusions may be drawn:

- **Consumer Choice:** Consumers in South Carolina have more local telephone service options than ever before. This is especially true in BellSouth, Verizon, or Embarq (Sprint) territories where services from CLECs, wireless, and VoIP providers are available. While different locales within the state have varying levels of access to alternative and/or intermodal providers, consumers in rural territories are limited mainly to wireless alternatives to traditional wireline service. It appears that wireless carriers and, depending on the area, VoIP providers are gaining market share and becoming robust competitors to traditional wireline telephone service. It is likely that all of the current market trends of bundles, broadband packages offering VoIP alternatives, and wireless substitution not only will continue to occur but also will occur more rapidly as these products mature and move past the early adoption stages of product development.

The proposed merger of the new AT&T (combined SBA and AT&T) and BellSouth announced on March 5, 2006 represents the latest in a series of mergers including MCI/Verizon and Sprint/Nextel that have served to position these companies as national wireline and wireless carriers. It is important to note that the old AT&T and MCI, which were major advocates for competition in local markets are now affiliated with Bell operating companies. These mergers may also have an effect on the number of carrier options consumers have in the marketplace.

**Pricing:** The unavailability of cross-sectional data obscures ORS's ability to gauge pricing trends beyond those carriers who are still required to file tariffs with this agency. Over the next year, ORS will study the price fluctuations in tariff filings and, to the extent possible, also in advertised offerings for bundled services.

- **Regulation:** Recent actions at both the state and federal levels have removed many of the regulations formerly imposed on telecommunication carriers, and the overall trend appears to favor little or no regulation on new market entrants.
- **Consumer Issues:** Consumers in a more deregulated industry seem to be more confused as to their rights regarding their telecommunications choices. Consumers are faced with the fact that the SC Public Service Commission regulates wireline complaints, the FCC regulates wireless complaints and no governmental agency currently regulates VoIP complaints.

As the landscape for local telephone services continues to evolve, ORS will remain committed to balancing the interests of the using and consuming public, the financial integrity of public utilities, and the economic development of South Carolina.